August 28th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

Equity markets are in pullback mode with the S&P 500 down -4.4%, Equal-Weighted S&P 500 -5.4%, Nasdaq Composite -5.9%, and Russell 2000 -7.6% since August began. Seasonality has kicked in (August-October timeframe is the softest period of the year historically), but the biggest headwinds for the moderation in momentum are higher bond yields and oil prices, along with weaker economic activity in China and Europe.

The US 10-year Treasury yield (4.32%) closed at 15-year highs yesterday, the 2-year yield is at the upper-end of its range over the past year (~5%) as expectations for Fed cuts in 2024 get pushed out, and WTI crude oil prices are back up to ~$80/barrel (breaking their downtrend in place for over a year). **Higher interest rates and energy prices increase costs (a headwind to economic growth), and are putting some doubt back in the minds of investors regarding their increasingly bullish, soft-landing narrative.** We remind you that the S&P 500 forward P/E multiple reached 19.5x at its recent high, a level that prices in a fairly rosy economic scenario and may prove a little ahead of itself.

When markets go up and up, it's easy to get bullish. When volatility picks up, questions start to arise on the outlook (and there are many with leading economic indicators signaling some troubles down the road). Most economists thought the economy would be in contraction by now, but excess savings and fiscal stimulus are delaying that timeline. Takeaways from Q2 retail earnings this week were consistent with a bend, but not break theme to consumer spending (and economic activity so far this year). Back-to-school spending was encouraging for potential holiday spend in the 2nd half of 2023, but there were also mentions of higher consumer credit card delinquencies, inventory shrink (from organized theft), and trade-down in spending toward the value segment.

Technically, the prevailing trend (before the recent volatility began) is likely to hold for now. We view the current pullback as a healthy consolidation, and think the market needs to digest its up-move (let time and fundamentals catch up to price). We don't believe the economy and AI enthusiasm will roll over on a dime- that said, we don't believe the market is in for a large rise either. Odds are there is a "buy the pullback" mentality first. And we note the equal-weighted S&P 500 index is oversold and testing support at its 200 DMA. Drawdowns typically occur in waves, they are a process. If the oversold bounce is meager and then undercuts the lows, odds are we have more to go on the downside.

The incoming data will play a large role on economic expectations and, in turn, market trends ahead. AI-related semiconductor earnings (which spurred the market strength since May) will be a big deal tonight, then Fed comments at the Jackson Hole Economic Symposium later this week. Additionally, employment will be key to monitor- July JOLTS Job Openings are reported next Tuesday and the August Jobs report comes next Friday.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	3.4%	3.7%
S&P 500	14.3%	6.0%
S&P 500 (Equal-Weight)	3.6%	0.3%
NASDAQ Composite	29.0%	9.1%
Russell 2000	5.1%	-3.4%
MSCI All-Cap World	10.6%	5.3%
MSCI Developed Markets	6.4%	9.0%
MSCI Emerging Markets	1.1%	-2.5%
NYSE Alerian MLP	9.0%	8.4%
MSCI U.S. REIT	-0.4%	-13.6%

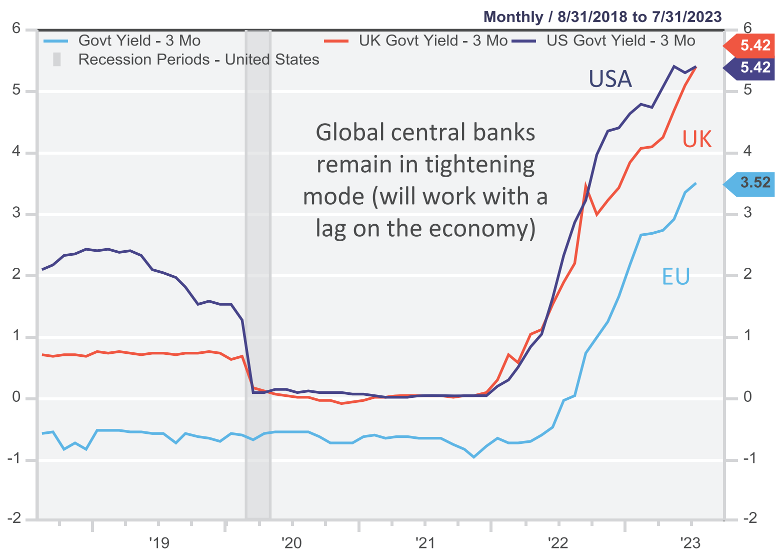
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	38.6%	8.7%
Information Technology	37.2%	27.7%
Consumer Discretionary	29.2%	10.5%
S&P 500	***14.3%***	-
Industrials	7.5%	8.5%
Materials	3.7%	2.5%
Energy	-0.9%	4.5%
Financials	-2.0%	12.5%
Health Care	-2.2%	13.6%
Consumer Staples	-2.8%	6.6%
Real Estate	-3.1%	2.3%
Utilities	-10.8%	2.5%

Source: FactSet

INTEREST RATES AND ECONOMIC SURVEYS

Most economists thought the economy would be in contraction by now, but excess savings and fiscal stimulus have supported growth this year and led to increasingly more optimism over a soft-landing scenario. While a better-than-expected economy has supported the market improvement, we still believe that the full impact of rapid central bank tightening will act with a lag and be a drag on the economic outlook.

As you can see, global central banks remain in tightening mode. The manufacturing side of the economy has been weak for awhile, while the services side has stayed afloat. However, we note that EU and UK PMI services just fell into contraction. And US Services PMI, which slowed to 51 (from 52.3) in August, may follow suit as high interest rates and tighter lending weigh on the consumer ahead.



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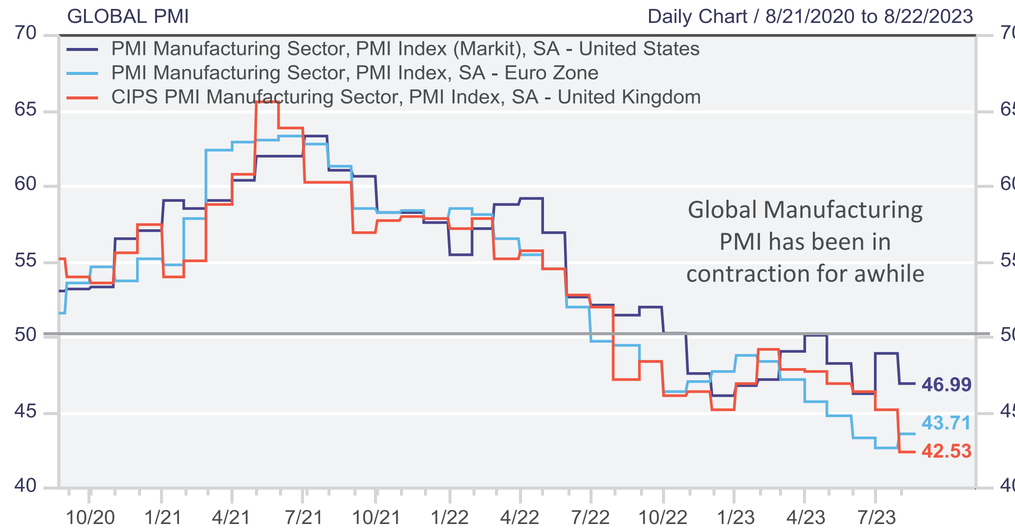

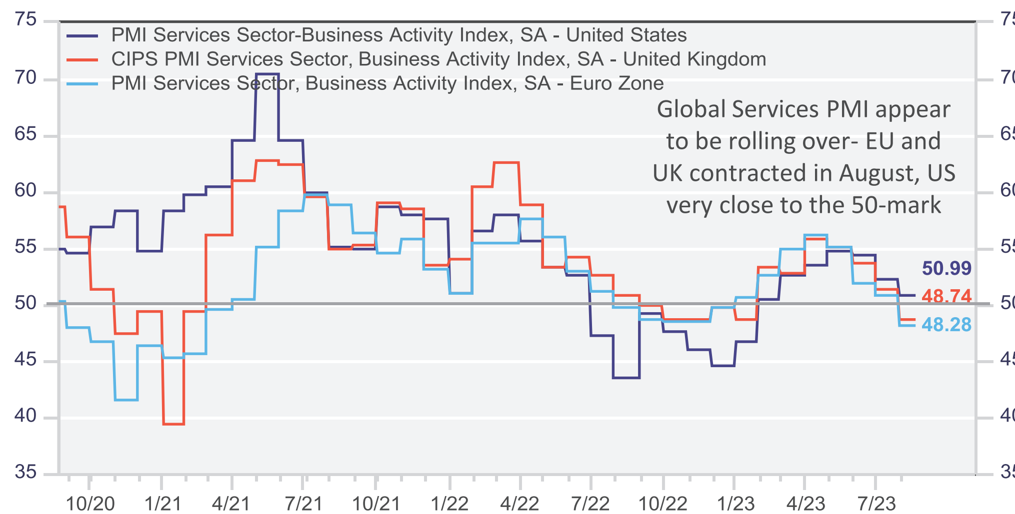

EARNINGS TRENDS ARE SUPPORTIVE FOR NOW

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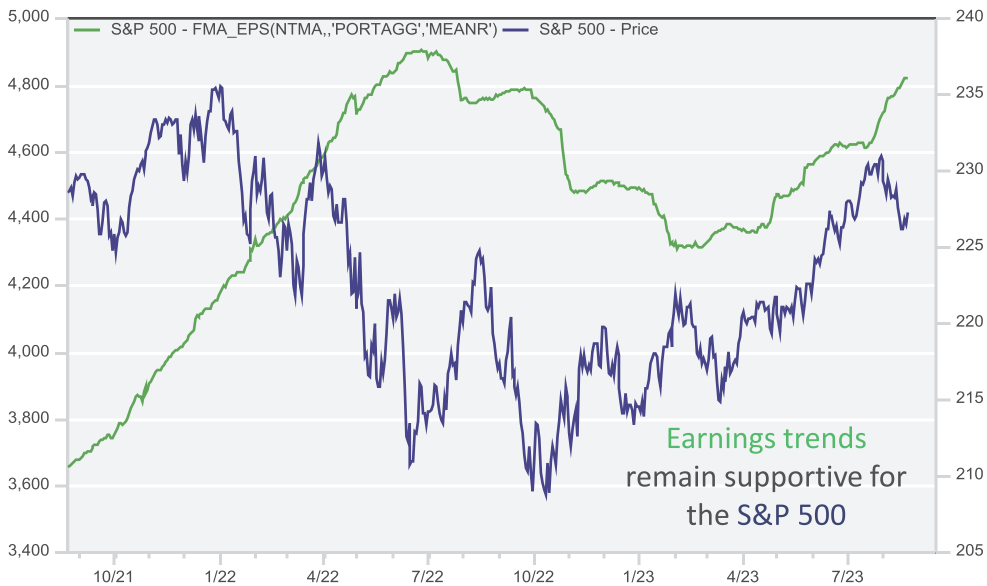
We still have our concerns on earnings estimates being too high, given the market pricing in a better economy (and our expectation of a mild recession). This increases the odds of potential economic volatility correlating with market volatility. But for now, the economy is holding up and earnings trends are supportive of equity markets.



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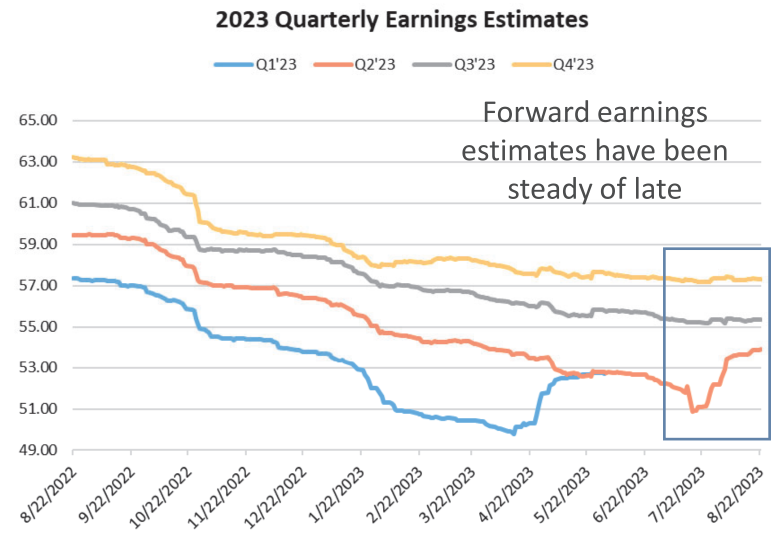

TECHNICAL: S&P 500

Source: FactSet

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Technically, the prevailing trend (before the recent volatility began) is likely to hold for now. We don't believe the economy and AI enthusiasm will roll over on a dime- that said, we don't believe the market is in for a large rise either. We view the current pullback as a healthy consolidation, and think the market needs to digest its up-move (let time and fundamentals catch up to price).

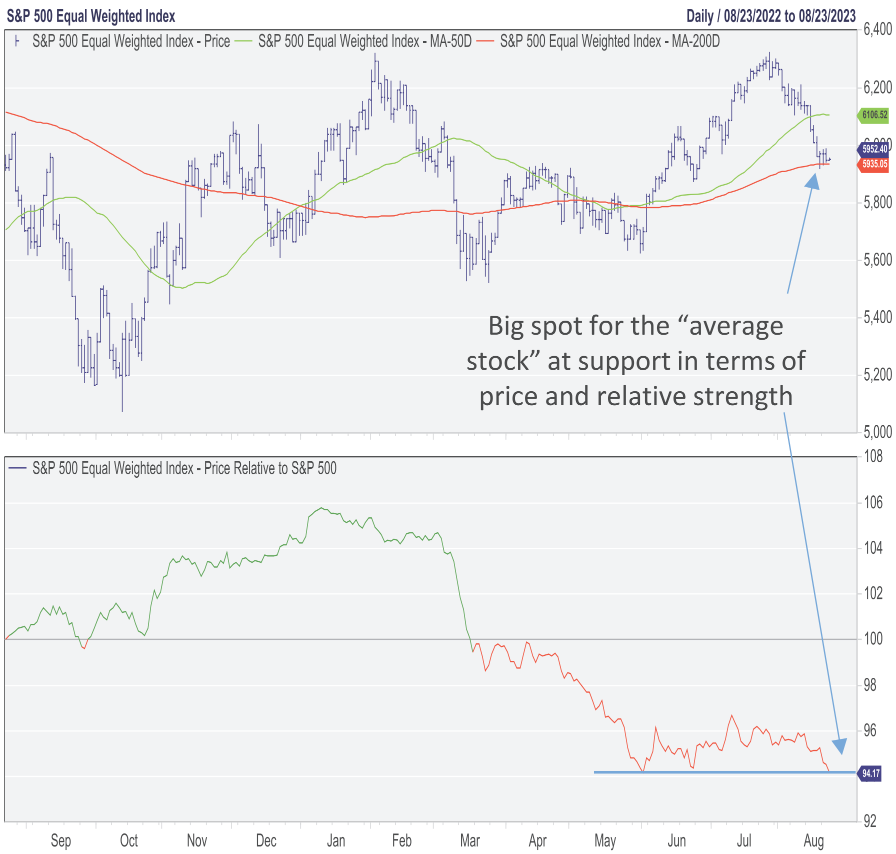
Absent something dramatic that completely changes the narrative, it would be very unusual for momentum as strong as it was to very quickly drop into a large drawdown. Odds are there is a "buy the pullback" mentality first. Drawdowns typically occur in waves, they are a process. If the oversold bounce is meager and then undercuts the lows, odds are we have more to go on the downside.

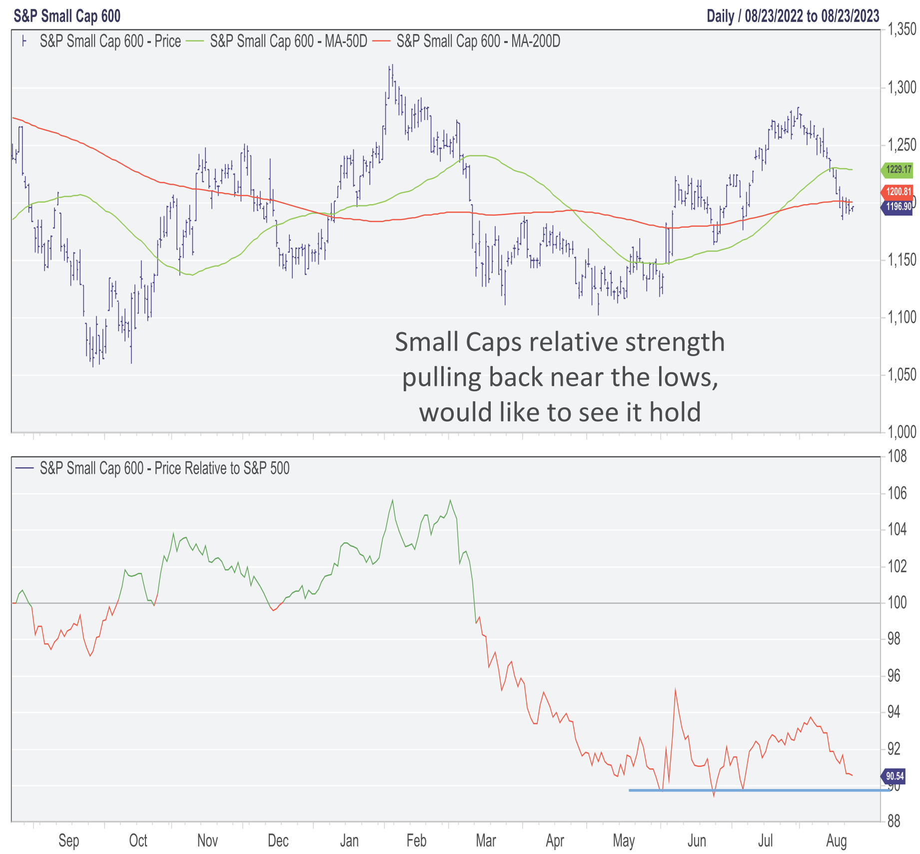
Technically, we see meaningful S&P 500 support in the 4200-4328 area. This would reflect a 6-8% drawdown from the peak, which is very normal historically.

In terms of resistance, we will be monitoring price action at the 50 DMA (4461), 20 DMA (4474), and recent highs (4589).

BIG SPOT FOR THE EQUAL-WEIGHTED S&P 500

The Equal-Weighted S&P 500, as well as the Small Caps, have now pulled back to potential support at their 200-day moving averages. These will be key levels to monitor in the short-term, and an oversold relief rally should transpire soon. As discussed previously, the potential bounce will need to be assessed for clues on the trend ahead. If the bounce is meager and recent lows are undercut, odds will increase for further downside. Additionally, we would like to see relative strength hold up as market performance this year has been too one-dimensional (in terms of Tech driving the upside). For the market's uptrend to develop into a healthy bull market, we would like to see growing participation beneath the surface.





Source: FactSet

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